

TESTIMONY BY

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before

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IN THE HOUSE

Committee on Post Office and Civil Service

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Mr. Chairman, thank you for the opportunity to appear before the Committee today to discuss what I consider important national retirement income policies. The Education and Labor Committee and its Subcommittee on Labor-Management, on which I serve, have just completed hearings focusing on what business, organized labor and pension groups think should be included in a National Retirement Income Policy. With this Committee's assignment to fashion the nation's largest pension program for employees comes the opportunity to step back and reevaluate where we are and where we are heading. Our ultimate goal should be an adequate retirement income for all Americans to live in dignity and economic security.

Clearly, your Committee will keep this goal in mind as it designs a supplemental retirement system for federal employees. Indeed, the decisions made for federal employees with respect to key issues such as vesting, integration, retirement age and cost-of-living-adjustments will greatly influence pension plans offered by competing employers in private and state and local government sectors. In designing the new plan, we must look at the needs of the employees; the impact upon labor-management relations; recruitment and retention incentives; and social policy implications.

From the Education and Labor Committee's hearings, one area of consensus stands out -- that any National Retirement Income Policy should consist of the three-legged stool relying on social security, supplemental employer provided plans and individual retirement savings. Today more and more employers provide a combination of Defined Benefit and Defined Contribution plans. While ensuring consistency with the to-be-defined National Retirement Income Policy, I believe we can also encourage individual savings. The new Federal retirement system should recognize these elements and combine them in a manner to encourage recruitment and retention of competent employees.

The testimony from the hearings we held in Labor-Management is replete with reference to numerous invaluable studies and reports including those from Congressional Research Service, General Accounting Office, and Office of Personnel Management. Most indicate the need for a system comparable with the private sector but which is also affordable. With Social Security as the base, I believe a new system can be designed that is attractive and affordable. Importantly, this system should be portable with private sector plans as well.

Studies stress how retirement decisions greatly affect our economy both today and in the future. Retirement policies should not create expectations which future workers and taxpayers are not willing to finance. It is our responsibility to be sure that our children are not strapped with a tremendous financial burden, and who is to say our children will agree to carry such a burden?

Current federal pensions are often the subject of criticism, mainly centered around the cost-of-living-adjustment and early retirement. When looking at the present system, we should investigate ways to make the new system more comparable with private sector practices. Why? In order that the new system will survive the test of time. Not only must federal employees be provided a sound pension plan, but the design must also be acceptable to the American taxpayer.

Consideration should be given to providing increased portability of pensions for workers in both the federal and private sectors. This is one issue which appears to have a growing consensus for inclusion as an important element of a National Retirement Income Policy. Throughout the Labor-Management Subcommittee hearings, we frequently heard complaints about the present situation in private and federal plans where, because of the mobility of the work force, "cashing out" of vast sums of pension assets results prior to retirement. These funds frequently are not reinvested for retirement purposes. Clearly, this is unfavorable both for the economy, which loses savings and capital formation, and for the individual who loses a future source of retirement income to supplement Social Security. We must provide incentives for individuals to maintain retirement savings and not use them for current consumption.

As a result of my studies of a National Retirement Income Policy and the need for a new federal system to supplement Social Security, it has become clear that the design needs to address certain features. First, in order to make the new system comparable with pension practices of major employers of the private sector, a combination Defined Benefit and Defined Contribution plan is suggested.

If the combined benefits, including cost-of-living-adjustments, from the Defined Benefit and Defined Contribution plans are comparable with private major employers, the normal cost of the new system should be more affordable than under the present system. Unlike under the present system and following the private sector practice, no mandatory contributions would be required by employees. To encourage the individual savings element of the three-legged stool, employees would be given an incentive to contribute to the Defined Contribution plan through matching employer contributions. When Social Security, the Defined Benefit and the voluntary Defined Contribution aspects are taken into account, the so-called Social Security tilt will have been addressed in a manner resulting in combined after-tax earnings replacement rates upon retirement which are roughly comparable at all federal earnings levels.

The retirement needs of our increasingly mobile population suggests the federal system be made more flexible with regard to retirement age. Although comparability with the private sector suggests some reduction for each year a person retires under the system's normal retirement age, the availability of the Defined Contribution plan accumulations can supplement the Defined Benefit Plan in a flexible manner.

To give recognition to portability, I believe we should continue with five-year vesting for the Defined Benefit plan and immediate vesting for the Defined Contribution plan. Consideration might also be given to allowing terminated employees with a few years of service to directly transfer the present value of their benefits under the Defined Benefit plan into the Defined Contribution plan. This would create additional funds for more mobile persons in the event of death and disability.

In following the lead of the private sector in these major design features, I believe that we can fashion an equitable plan for new federal employees. In the interest of honesty in governmental accounting, we should expect each federal agency to recognize the normal cost of each employee's retirement benefits. The normal cost of the military retirement system is now recognized in this manner and I see no reason to do otherwise in other federal systems.

Thank you, again, for allowing me to testify before your Committee today. I look forward to continuing a dialogue on this subject of national importance in the future.
